



**STATE OF WISCONSIN**  
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***CORRESPONDENCE MEMORANDUM***

**DATE:** September 29, 2005  
**TO:** Wisconsin Deferred Compensation Board  
**FROM:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**SUBJECT:** September 2005 Update

In lieu of a meeting of the Investment Committee and the related reading materials, I am providing you with this update on current topics of interest to Deferred Compensation Board members. Please contact me at 608-266-6611 or [shelly.schueller@etf.state.wi.us](mailto:shelly.schueller@etf.state.wi.us) if you have any questions or would like further information on any of the subjects discussed here.

**ADMINISTRATIVE SERVICES CONTRACT**

The Department and Wisconsin Deferred Compensation (WDC) Program staff have been hard at work over the last three months completing contract negotiations and planning the transition from Nationwide Retirement Services (NRS) to Great-West Retirement Services.

The administrative services contract between the WDC and Great-West Retirement Services (GWRS) was signed and completed on Friday, August 26, 2005. GWRS will assume responsibilities for the WDC on December 1, 2005. Department staff is pleased that many of the existing local WDC staff have opted to remain with the WDC, including manager Sue Oelke.

In addition to providing excellent customer service and the same WDC features as the previous provider, GWRS will be:

- adding field staff dedicated solely to the WDC;
- expanding customer service telephone hours to 7 a.m. to 7 p.m.; and
- revising and updating all the WDC materials, including the Web site and brochures and forms to reflect a new "WDC brand."

These changes will be communicated to WDC participants and employers through special mailings, the WDC newsletter, via the interactive telephone system, the Web site and specific group presentations scheduled around Wisconsin. WDC employers also received a new payroll guide in the mail and had the opportunity to attend either a regional WDC employers meeting on changes to the payroll process or view a Webinar on the same topic at their convenience.

Staff will provide a more detailed discussion of the transition plan and upcoming changes at the next Board meeting, which is scheduled for November 15, 2005.

Reviewed and approved by Dave Stella, Deputy Secretary

Signature \_\_\_\_\_

Date \_\_\_\_\_

## **INVESTMENT PERFORMANCE OF CALVERT SOCIAL INVESTMENT EQUITY FUND**

At the Board's request, NRS has been monitoring the performance of the Calvert Social Investment Equity Fund (Calvert). Copies of the charts illustrating Calvert's recent investment performance are included as attachments to this memo.

Through the end of July 2005, Calvert's performance has met the criteria and exceeded benchmarks. Calvert ranks within the 28th percentile of the Morningstar Large Growth Category year-to-date and in the 60th percentile for the 12-month period, but in the 41st percentile for the 3-year period, and 1st percentile for the 5-year period. Calvert performed in the top 5% of the large growth category during 2000, 2001, and 2002, before falling to the 80th percentile in 2003, and then recovering to the 52<sup>nd</sup> percentile in 2004. Under performance in 2003 reflects an under weighting relative to the category in technology-related stocks during that sector's market rally in 2003, however, over other market periods this strategy has helped to protect the fund when technology has not performed well.

## **MUTUAL FUND INVESTIGATIONS**

### ***The Janus Fund***

The Janus Fund has been part of the WDC since 1994. It is currently closed to new deferrals and will be phased out of the WDC spectrum of investment options during 2005. The Board is concerned with potential collateral damage to WDC Janus Fund holders resulting from numerous redemptions that followed the conclusion of investigations into the mutual fund industry and the Janus Capitol Group, in particular.

At the February 2005 Board meeting, the Board directed staff to send a letter to Janus requesting inclusion in the pool of affected shareholders, as well as regular updates regarding the status of the development of the restoration payment plan and all other matters affecting the final settlement with regulators. Janus declined the WDC's request for restoration payment plan status or update information, but did agree to keep the WDC informed as information becomes publicly available.

At the May 10, 2005 meeting, the Board asked staff to determine if there is any way for the Board to become involved with any legal suit against Janus regarding collateral damages assessed and the Independent Distribution Consultants evaluation. At the request of the Department, the Wisconsin Attorney General's office is reviewing the Board's position regarding Janus and has referred the matter to a staff attorney who specializes in securities issues.

At the request of the Department, attorneys at NRS also reviewed the situation. In their opinion, it would be difficult for the Board to intercede in this matter or to become involved with the Independent Distribution Consultants evaluation. Securities and Exchange Commission (SEC) procedures are well defined and do not appear to permit any inclusion by third parties, such as the Board, in the administrative proceeding and any settlement between Janus and the SEC.

NRS suggested two additional avenues for the Board to explore:

- Contacting the SEC for additional clarification or guidance on this matter; and
- Discussing with legal counsel the possibility of taking legal action against Janus.

Department staff is waiting for the Wisconsin Attorney General's office assessment, but it appears that there are few viable avenues for the Board to become involved in any settlements proposed by the SEC for Janus.

### ***EuroPacific Growth Fund offered by American Funds***

The EuroPacific Growth Fund opened to WDC participants on February 1, 2005. Shortly after the fund was opened, the National Association of Securities Dealers (NASD) alleged that the fund provider, American Funds, violated the NASD Anti-Reciprocal Rule by directing approximately \$100 million in brokerage commissions to top sellers of the American Funds. American Funds has strongly denied the NASD allegation and believes there are no facts that support this allegation. They have requested a hearing before the NASD, which is pending.

In addition, American Funds and the California Attorney General filed countersuits against each other in late March 2005. American Funds filed a complaint for injunctive and declaratory relief requesting that the court find that American Funds' disclosure of additional compensation was accurate and not misleading under federal and state law, and to prevent the California Attorney General from bringing any enforcement action against American Funds for those actions. The California Attorney General is alleging that American Funds failed to adequately inform investors of \$426 million in "shelf space" payments American Funds made to brokers and dealers to sell and recommend American Funds.

There has been no change in the status of the American Funds allegations since the Board meeting on May 10, 2005. Staff will continue to follow up and will keep the Board informed of any new developments.

American Funds has also proposed a new frequent-trading policy, which would prohibit plan participants who exchange out of an American Fund from exchanging back into the same fund within 60 calendar days. The American Fund representative and NRS are discussing this proposal and when it will be implemented. Staff will update the Board when there is a decision.

### **INVESTMENT OPTION CLOSEOUTS**

The table below provides data on assets remaining in the Janus Fund and T. Rowe Price International Fund as of September 6, 2005:

	<b>JANUS</b>	<b>T. ROWE PRICE INTERNATIONAL</b>
<b>PARTICIPANTS</b>	5,737	5,793
<b>TOTAL ASSETS</b>	\$29,636,881.37	\$24,220,336.12
<b>AVERAGE ACCOUNT SIZE</b>	\$5,165.92	\$4,180.97
<b>LARGEST ACCOUNT</b>	\$191,046.00	\$110,956.83
	<b>JANUS</b>	<b>T. ROWE PRICE INTERNATIONAL</b>
<b>NUMBER OF WDC ACCOUNTS</b>		
OVER \$100,000	7	1
OVER \$50,000	32	26
BETWEEN \$10,000 AND \$49,999	731	605
UNDER \$100	380	472

## STABLE VALUE FUND

The WDC Stable Value fund has been managed by Galliard Capital Management (Galliard) for the past seven years. The WDC Stable Value assets are allocated between Galliard and two subadvisors: Alliance and PIMCO. Over the last two and a half years, the percentage of the account managed directly by Galliard has slowly increased, while the percentage managed by Alliance and PIMCO has decreased.

<b>WDC STABLE VALUE FUND</b>			
<b>Manager Distribution % as of:</b>	<b>Galliard</b>	<b>Alliance</b>	<b>PIMCO</b>
06/30/2005	64.5%	14.5%	21.0%
03/31/2005	62.8%	15.6%	21.6%
12/31/2004	62.0%	16.0%	22.0%
09/30/2004	61.9%	16.0%	22.1%
06/30/2004	61.5%	16.5%	21.9%
03/31/2004	60.2%	17.1%	22.7%
12/31/2003	60.1%	17.2%	22.7%
09/30/2003	59.6%	17.4%	23.0%
06/30/2003	59.2%	17.6%	23.2%
03/31/2003	58.5%	17.9%	23.6%

During the second quarter of 2005, Galliard allocated an additional \$5 million to PIMCO. Even with this new allocation to one of the subadvisors, the overall percentage managed by Galliard continued to increase. Galliard expects to make an additional allocation to PIMCO during the third quarter of 2005 as well. Galliard is satisfied with the current allocations but expects some adjustments in the near future to achieve a 60% Galliard and 40% PIMCO/Alliance balance.

Attached to this memo is a letter from Galliard outlining their historical allocation rationale as well as their strategy going forward. Galliard has also been invited to present information to the Board at the meeting on November 15, 2005.

Attachments